IDAHO OUTLOOK

NEWS OF IDAHO'S ECONOMY AND BUDGET

STATE OF IDAHO DIVISION OF FINANCIAL MANAGEMENT MAY 2008 VOLUME XXX NO. 11

The general consensus among economists is that the U.S. economy is in a recession. However, there is less agreement over what type of recession we are in. Ironically, for a profession that lives by numbers, the choices come down to letters. Some believe it will be V-shaped, a steep drop followed by a quick recovery. Another camp believes the steep drop will be followed by protracted, sluggish growth—the infamous L-shaped recession. Others are not quite so pessimistic. These economists expect a U-shaped recession, where the initial decline is followed by a short period of slow growth then a gradual recovery.

To this alphabet soup of possible recessions, Global Insight adds the W-shaped recession. As its name implies, in this slowdown real GDP growth initially declines, then it has a brief growth spurt, which is followed by another downturn, and then an eventual recovery. Specifically, after growing just 0.6% in the last quarter of 2007, real GDP declines 0.1% in this year's first quarter and 0.7% in the second quarter. It jumps to a 2.4% annual pace in the third quarter of 2008 and advances at a 1.4% pace in the fourth quarter. After this spurt, the economy virtually stalls in the first quarter of next year. The recovery begins in the second quarter, as real GDP grows 2.8%. It advances at about a three-percent gait thereafter.

The recession's shape would probably be U-shaped were it not for the federal fiscal stimulus package that was passed this past winter. A major goal of this plan is to keep the economy moving by boosting consumer spending. To this end, the largest component of this package is the tax rebates to households worth $107 billion. It is assumed that three-fourths of the rebates are delivered in this year's second quarter, and the rest in the third quarter. It is also assumed that 20% of the rebates will be spent in three months, 40% within six months, and 50% within a year. Given these delivery and spending patterns, the rebates should provide their biggest boost to consumer spending in this year's third quarter. Unfortunately, the impact of this one-time infusion into the economy wanes, and spending growth slows in both this year's last quarter and next year's first quarter.

The economic recovery should start in earnest in the second quarter of next year thanks to a confluence of several factors. One factor is the Federal Reserve's interest rate cuts begin to have an impact on the economy. Another factor is housing. Housing is currently the largest drag on the economy. The huge housing glut needs to be worked off in order for the economy to fully recover. This imbalance should be cured in the next few years, but the treatment will be painful. Namely, housing prices will need to fall further in order to stimulate demand. Another factor is less-restrictive lending practices.

The current U.S. economic forecast is slightly weaker than had been reported in January. Real GDP was projected to average 2.6% growth over the next few years in the previous forecast, versus 2.3% in the current outlook. While both forecasts have a near-term slowdown, it is more severe in the current one.

The weaker U.S. economy has lowered the prospects for the Gem State's economy. For example, there are about 7,800 fewer Idaho jobs in 2008 in the current forecast compared to the January forecast. This gap grows each of the next three years, so that there are nearly 12,400 fewer jobs in 2010 than in the previous forecast. Construction employment is noticeably lower because the housing retrenchment is deeper than in the previous forecast. There are nearly 2,700 fewer housing starts in 2010 in this forecast compared to the previous one. One piece of encouraging news is the employment gap is expected to narrow to about 9,700 jobs in 2011.

The countdown to a paperless *Idaho Outlook* continues. Last month DFM announced it will send out its last hard copies of this publication in June 2008. However, DFM will continue to prepare and post electronic copies of the monthly *Idaho Outlook* on its website at http://dfm.idaho.gov/Publications/Econ_Publications.html. If you would like to be contacted by email when each report is posted, please send your name and email address with *Idaho Outlook* in the subject line to info@dfm.idaho.gov.

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General Fund Update

As of April 30, 2008

Revenue Source	FY 2008 Executive Estimate[3] ($ Millions)	DFM Predicted to Date ($ Millions)	Actual Accrued to Date ($ Millions)
Individual Income Tax	1,378.9	1,226.2	1,266.5
Corporate Income Tax	169.4	136.0	148.1
Sales Tax	1,166.0	973.2	961.0
Product Taxes[1]	26.8	22.6	22.6
Miscellaneous	120.9	55.5	63.8
TOTAL GENERAL FUND[2]	**2,862.0**	**2,413.5**	**2,462.0**

1 Product Taxes include beer, wine, liquor, tobacco and cigarette taxes
2 May not total due to rounding
3 Revised Estimate as of February 2008

General Fund revenue was $70.5 million higher than expected in April, and now stands $48.4 million above the amount predicted for the fiscal year to date. The bulk of April's excess receipts ($62.8 million) were from the individual income tax. Another sizeable chunk of April's strength came in the form of corporate income tax receipts that were $10.2 million higher than expected in April. This very positive revenue performance in April masked weakness in two critical areas—sales tax receipts and withholding collections.

Individual income tax revenue was $62.8 million higher than expected in April, and now stands $40.3 million above the year-to-date predicted amount. Filing collections were the reason behind this strength, coming in $79.7 million higher than expected for April and now standing $83.3 million above the fiscal year-to-date predicted amount. In contrast, refunds were $5.6 million higher than expected in April and are $30 million higher than expected as of the end of April. Withholding collections had the worst month of the fiscal year, coming in $10.9 million lower than expected for the month of April. Withholding was expected to grow 4.3% year over year in April 2008, but instead fell by 3.9% relative to April 2007. However, on a fiscal year-to-date basis withholding is only $11.1 million lower than expected. In essence, withholding was right on track going into April, and hopefully it will return to that track over the next two months.

Corporate income tax revenue was $10.2 million ahead of expectations in April and now stands $12.1 million ahead on a fiscal year-to-date basis. Gross collections were $11.9 million higher than expected in April, with $7 million attributable to filing payments and $4.9 million due to estimated payments. Refunds were $1.2 million higher than expected in April, offsetting a small amount of the quite strong gross collections for the month.

Sales tax revenue was $6.0 million lower than expected in April and now stands $12.2 million below the fiscal year-to-date predicted amount. April was the weakest month so far in FY 2008 and marks the fourth consecutive month of revenue below expectations. Gross sales tax collections for the month of April 2008 were expected to decline by 0.9% relative to April 2007, but the actual decline was 6.9%. Gross sales tax collections for the fiscal year-to-date through April were expected to be up 1.0%, but are actually down by 0.3%. Growth for the full fiscal year is expected to be 0.8%, but a small decline now appears most likely (this is on a normalized basis to remove the effect of the sales tax rate increase that occurred midway through FY 2007).

Product taxes were slightly ahead of target in April and are now exactly on target on a year-to-date basis. Miscellaneous revenues were $3.4 million higher than expected in April due primarily to strength in interest earnings. Miscellaneous revenues through April are $8.3 million higher than expected due to a combination of interest earnings ($5.3 million ahead) and unclaimed property ($3.7 million ahead). Along with several smaller categories that were ahead as of the end of April, this strength was partially offset by $2.8 million in weakness in the insurance premium tax.